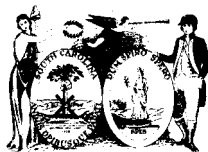


State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200  
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA  
STATE AUDITOR

(803) 253-4160  
FAX (803) 343-0723

October 18, 2001

Ms. Suzanne Clayton, Financial Services Manager  
Beverly Healthcare  
One Thousand Beverly Way  
Fort Smith, Arkansas 72919

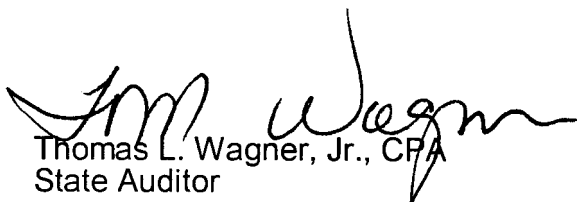
Re: AC# 3-PNC-J8 – Beverly Enterprises – South Carolina, Inc.  
d/b/a Pines Nursing & Convalescent Home

Dear Ms. Clayton:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 1997 through September 30, 1998. That report was used to set the rate covering the contract period beginning October 1, 1999.

We are recommending that the Department of Health and Human Services certify an accounts payable for amounts underpaid as a result of the rate change shown at Exhibit A. You will be notified of payment by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.

  
Thomas L. Wagner, Jr., CPA  
State Auditor

TLWjr/cwc

cc: Ms. Brenda L. Hyleman  
Mr. Jeff Saxon  
Mr. Joseph Hayes

**BEVERLY ENTERPRISES – SOUTH CAROLINA, INC.  
D/B/A PINES NURSING & CONVALESCENT HOME**

**DILLON, SOUTH CAROLINA**

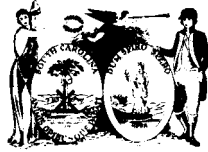
**CONTRACT PERIOD  
BEGINNING OCTOBER 1, 1999  
AC# 3-PNC-J8**

**REPORT ON CONTRACT  
FOR  
PURCHASE OF NURSING CARE SERVICES  
WITH  
STATE OF SOUTH CAROLINA  
DEPARTMENT OF HEALTH AND HUMAN SERVICES**

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# State of South Carolina



## Office of the State Auditor

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### INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

May 30, 2001

Department of Health and Human Services  
State of South Carolina  
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with Beverly Enterprises – South Carolina, Inc. d/b/a Pines Nursing & Convalescent Home, for the contract period beginning October 1, 1999, and for the twelve month cost report period ended September 30, 1998, as set forth in the accompanying schedules. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

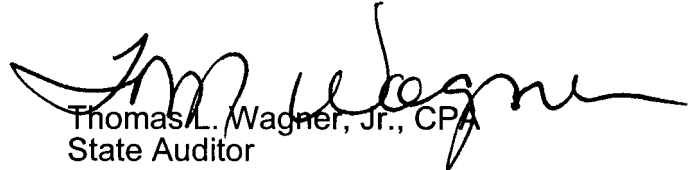
The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by Beverly Enterprises – South Carolina, Inc. d/b/a Pines Nursing & Convalescent Home, to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and Beverly Enterprises – South Carolina, Inc. d/b/a Pines Nursing & Convalescent Home dated as of October 1, 1994 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computation of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services  
State of South Carolina  
May 30, 2001

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.



Thomas L. Wagner, Jr., CPA  
State Auditor

**PINES NURSING & CONVALESCENT HOME**

Computation of Rate Change  
For the Contract Period  
Beginning October 1, 1999  
AC# 3-PNC-J8

10/01/99-  
09/30/00

Adjusted reimbursement rate	\$91.81
Interim reimbursement rate (1)	<u>91.41</u>
Increase in reimbursement rate	\$ <u><u>.40</u></u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated December 19, 2000

**PINES NURSING & CONVALESCENT HOME**  
Computation of Adjusted Reimbursement Rate  
For the Contract Period October 1, 1999 Through September 30, 2000  
AC# 3-PNC-J8

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$39.97	\$47.61	
Dietary		10.27	10.24	
Laundry/Housekeeping/Maint.		<u>7.86</u>	<u>8.89</u>	
Subtotal	\$ <u>4.67</u>	58.10	66.74	\$58.10
Administration & Med. Rec.	\$ <u>-</u>	<u>11.89</u>	<u>11.39</u>	<u>11.39</u>
Subtotal		69.99	<u>\$78.13</u>	69.49
<u>Costs Not Subject to Standards:</u>				
Utilities		2.13		2.13
Special Services		2.51		2.51
Medical Supplies & Oxygen		4.70		4.70
Taxes and Insurance		1.94		1.94
Legal Fees		<u>-</u>		<u>-</u>
<b>TOTAL</b>		<u>\$81.27</u>		80.77
Inflation Factor (3.00%)				2.42
Cost of Capital				6.88
Cost of Capital Limitation				(1.32)
Profit Incentive (Max. 3.5% of Allowable Cost)				-
Cost Incentive				4.67
Effect of \$1.75 Cap on Cost/Profit Incentives				(2.92)
CNA Add-On				.75
Nursing Aide Staffing Add-On				<u>.56</u>
 ADJUSTED REIMBURSEMENT RATE				 <u>\$91.81</u>

**PINES NURSING & CONVALESCENT HOME**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 1998  
AC# 3-PNC-J8

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
General Services	\$1,219,829	\$ -	\$ -	\$1,219,829
Dietary	313,474	-	-	313,474
Laundry	37,676	-	-	37,676
Housekeeping	129,936	-	-	129,936
Maintenance	72,187	-	-	72,187
Administration & Medical Records	362,943	-	-	362,943
Utilities	65,107	-	-	65,107
Special Services	64,826	11,674 (2)	-	76,500
Medical Supplies & Oxygen	143,367	-	-	143,367
Taxes & Insurance	59,125	-	-	59,125
Legal Fees	-	-	-	-
Cost of Capital	191,419	16,412 (1) <u>2,273 (3)</u>	-	210,104
Subtotal	2,659,889	30,359	-	2,690,248



**PINES NURSING & CONVALESCENT HOME**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 1998  
AC# 3-PNC-J8

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	<u>Debit</u>	Adjustments <u>Credit</u>	<u>Adjusted Totals</u>
Ancillary	4,461	-	-	4,461
Non-Allowable	278,581	-	16,412 (1) 11,674 (2) <u>2,273 (3)</u>	248,222
Total Operating Expenses	<u>\$2,942,931</u>	<u>\$30,359</u>	<u>\$30,359</u>	<u>\$2,942,931</u>
Total Patient Days	<u>30,521</u>	<u>-</u>	<u>-</u>	<u>30,521</u>
TOTAL BEDS	<u>84</u>			

**PINES NURSING & CONVALESCENT HOME**  
Adjustment Report  
Cost Report Period Ended September 30, 1998  
AC# 3-PNC-J8

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Accumulated Depreciation	\$ 23,926	
	Cost of Capital	16,412	
	Other Equity		\$ 6,145
	Fixed Assets		17,781
	Nonallowable		16,412
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Special Services	11,674	
	Nonallowable		11,674
	To adjust co-insurance for Medicare Part B services State Plan, Attachment 4.19D		
3	Cost of Capital	2,273	
	Nonallowable		2,273
	To adjust capital return State Plan, Attachment 4.19D		
		<hr/>	<hr/>
	TOTAL ADJUSTMENTS	\$ <u>54,285</u>	\$ <u>54,285</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

**PINES NURSING & CONVALESCENT HOME**  
Cost of Capital Reimbursement Analysis  
For the Cost Report Period Ended September 30, 1998  
AC# 3-PNC-J8

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.2493</u>
Deemed Asset Value (Per Bed)	35,130
Number of Beds	<u>84</u>
Deemed Asset Value	2,950,920
Improvements Since 1981	453,823
Accumulated Depreciation at 9/30/98	<u>(764,944)</u>
Deemed Depreciated Value	2,639,799
Market Rate of Return	<u>.063</u>
Total Annual Return	166,307
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	166,307
Depreciation Expense	43,761
Amortization Expense	36
Capital Related Income Offsets	-
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	210,104
Total Patient Days (Actual Days)	<u>30,521</u>
Cost of Capital Per Diem	\$ <u><u>6.88</u></u>

**PINES NURSING & CONVALESCENT HOME**  
Cost of Capital Reimbursement Analysis  
For the Cost Report Period Ended September 30, 1998  
AC# 3-PNC-J8

6/30/89 Cost of Capital and Return on Equity	
Capital Per Diem Reimbursement	\$ 1.57
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	\$ <u>5.56</u>
Reimbursable Cost of Capital Per Diem	\$ 5.56
Cost of Capital Per Diem	<u>6.88</u>
Cost of Capital Per Diem Limitation	\$ ( <u>1.32</u> )

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